

Decision 04-04-066 April 22, 2004

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U 338-E) For Approval of its 2004 Revenue Requirement and Related Estimates Under the Energy Resource Recovery Account (ERRA); And For a Commission Finding that its Procurement-Related and Other Operations were Reasonable for the Record Period September 1, 2001 Through June 30, 2003.

Application 03-10-022
(Filed October 3, 2003)

Law Offices of Daniel W. Douglass,
by Gregory S.G. Klatt, Attorney at Law
Law Offices of Alcantar & Kahl LLP,
by Nora Sheriff, Attorney at Law
Robert B. Keeler, Attorney at Law, for
Southern California Edison Company
Law Offices of William H. Booth,
by William H. Booth, Attorney at Law
Regina Deangelis, for Office of Ratepayer Advocates

INTERIM OPINION RESOLVING THE FORECAST PHASE OF SOUTHERN CALIFORNIA EDISON COMPANY'S ENERGY RESOURCE RECOVERY ACCOUNT APPLICATION

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ACCOUNT APPLICATION**

1. Summary

This decision adopts the 2004 revenue requirement and related estimates under Southern California Edison Company's (SCE's) Energy Resource Recovery Account (ERRA). The resulting 2004 system average ERRA generation rate amounts to 4.894 cents/kilowatt-hour (kWh), a 2.59% increase, and the resulting system average ERRA delivery rate amounts to -0.035 cents/kWh, a 159.51% decrease, relative to the 2003 rates. For the purpose of developing the 2004 revenue requirement, this decision also adopts a Competition Transition Charge (CTC) rate of 0.321 cents/kWh.

2. Background

Pursuant to the December 9, 2003 Assigned Commissioner's Scoping Memo, SCE's ERRA application is being addressed in two phases, a forecast phase and a reasonableness phase.¹ This forecast phase decision adopts SCE's 2004 ERRA revenue requirement and related estimates and authorizes changes to the ERRA generation and delivery rates.

The majority of SCE's proposed 2004 ERRA revenue requirement consists of the estimated fuel and purchased power costs² that SCE will recover through the SCE Generation Charge, which is applicable to its bundled service customers. In addition to the bundled service generation revenue requirements, SCE's

¹ SCE's procurement related operations, for the record period September 1, 2001 through June 30, 2003, will be addressed in the reasonableness phase. Evidentiary hearing for this phase is scheduled to begin on April 12, 2004.

² It does not reflect costs related to projected DWR contracts, which are reflected in the DWR Power Charge.

request includes the disposition of balancing accounts and certain expenses and credits associated with delivery service, which is applicable to all customers.

Due to the submittal of two joint statements, SCE's revised forecast request is uncontested. The December 16, 2003 statement of SCE and the Office of Ratepayer Advocates (ORA) was issued in lieu of ORA's forecast phase testimony. Based on a number of understandings described in the statement, ORA agreed to accept SCE's forecast. In the December 29, 2003 joint statement of SCE, ORA, THUMS Long Beach Company (THUMS) and the Alliance for Retail Energy Markets (AREM), SCE revised the proposed 2004 CTC rate and the estimated 2004 Direct Access (DA) CTC revenues, and the other parties agreed to accept the revisions. Both joint statements included the qualification that acceptance of SCE's estimates is for the purpose of setting prospective rates and does not prejudice the reasonableness of the costs ultimately recorded in the ERRRA in 2004.

Evidentiary hearing were held on January 7, 2004, at which time witnesses and counsel clarified statements and positions that were included in the joint statements as well as in SCE's direct testimony. Regarding SCE's proposal to include its actual expense on undercollections in the ERRRA balancing account, a question arose as to whether carrying costs for fuel inventory and collateral expense should also be considered for revision. ORA and SCE agreed that SCE's proposal and the extent of revisions to carrying costs were being addressed in Application (A.) 03-04-022, SCE's prior ERRRA filing, and agreed that whatever the Commission decides in that proceeding should be carried forward into this proceeding.

Exhibit 8³ details SCE's revised ERRRA revenue requirement request, which incorporates the agreements as set forth in the two joint statements. It is included as Appendix A to this decision.

SCE filed an opening brief on January 21, 2004, and ORA filed a reply brief on January 26, 2004, at which time the forecast phase was submitted for decision.

3. SCE/ORA Joint Statement

ORA's acceptance of SCE's forecasted 2004 ERRRA revenue requirement is subject to five understandings. The first understanding relates to reasonableness reviews of SCE's utility retained generation (URG) for non-nuclear facilities. During evidentiary hearing, the parties clarified that the recorded, rather than a combination of recorded and forecasted, URG-related capital and O&M expenses reflected in the native load balancing account would be subject to reasonableness review in general rate case (GRC) proceedings.

The second understanding indicates that, at an appropriate time, SCE would update the revenue requirement associated with Energy Efficiency and Demand Response programs ultimately adopted in Rulemaking (R.) 01-10-024. Decision (D.) 03-12-062 subsequently set the funding levels and established rate recovery through a separate non-bypassable surcharge. The recalculated ERRRA revenue requirement, as detailed in Exhibit 8, therefore reflects the removal of these program costs.

The third understanding is that the forecasted 2004 balances in this proceeding have not yet been reviewed for reasonableness and are accepted for rate setting purposes only.

³ Exhibit 8 was submitted by SCE on January 16, 2004 and received into evidence on January 23, 2004.

The fourth understanding is that SCE would update the account balances and provide that information to the parties. The updated year-end balances for 2003 should then be the basis for establishing the forecasted 2004 revenue requirement for this proceeding. The year-end information was subsequently provided by SCE in Exhibit 8.

The fifth understanding is that upon implementation of the forecast phase decision in this proceeding, SCE will consolidate all of its revenue requirement changes that the Commission has already authorized into one rate level change.

The understandings between ORA and SCE are reasonable and provide clarification to SCE's forecast and related proposals. As such, they are incorporated in this decision where applicable.

4. SCE/ORA/THUMS/AReM Joint Statement

This joint statement was submitted as a result of the direct testimonies of THUMS and AReM, in which both parties argued that the benchmark market price⁴ on which the CTC rate is based should be updated with more current information than that contained in SCE's original testimony. In the joint statement, an updated market cost of 5.18 cents/kWh⁵ was used in place of the 4.3 cents/kWh⁶ benchmark price that was included in SCE's testimony. On the basis of this one change, the calculated system average CTC rate for 2004 is 0.321 cents/kWh as opposed to the rate of 0.926 cents/kWh that was contained

⁴ The market cost of a new combined cycle, baseload natural gas-fired power plant.

⁵ The update is based on information from the October 2003 California Energy Commission draft report titled Electricity and Natural Gas Assessment Report.

⁶ The benchmark price was based on information from the April 29, 2002 California Energy Commission report titled Proposed Action Plan to develop More Demand Response in California Electricity Markets.

in SCE's original testimony. Use of the updated rate reduces the DA customers' CTC revenue contribution from SCE's original estimate of \$105.7 million to \$30.5 million, a reduction of \$75.2 million. This result is reflected in Exhibit 8, where direct access revenues are used to reduce the ERRA revenue requirement for generation service. Consistent with the principle of bundled customer indifference adopted in D.02-11-022 and D.03-07-030, the DA customers' contribution to the DWR power charge will be \$75.2 million higher than it would have been under the 0.926 cents/kWh CTC rate, as the overall DA Cost Responsibility Surcharge remains capped at 2.7 cents/kWh.

The joint statement proposal is consistent with our prior statement⁷ that for the year 2004 and subsequent years, the 4.3 cents benchmark will be subject to revision to reflect more updated data. The use of information from the California Energy Commission is a reasonable basis for making this revision. Therefore, for purposes of determining SCE's 2004 ERRA revenue requirement, we will adopt a market benchmark of 5.13 cents/kWh, a system average CTC rate of 0.321 cents/kWh and a DA customers' CTC revenue contribution of \$30,451,000.

5. Revenue Requirement Forecast

SCE's forecasted ERRA revenue requirement for 2004 has declined from the 2003 level, for both the generation and delivery components. The increase in the generation rate is caused by the decline in sales supplied by SCE URG, which

⁷ D.03-07-030, *mimeo.*, p. 14.

is due to an anticipated increase in the allocation of amounts supplied by Department of Water Resources (DWR) contracts.⁸

ORA, THUMS and AReM have reviewed SCE's forecast, and subject to the understandings and revisions contained in the two joint statements, there is no disagreement with the revenue requirement forecast, sales or system average rates, as shown in Exhibit 8. The forecasted costs are subject to balancing account treatment and will be trued-up to recorded amounts at a later date. The ultimate cost recovery will therefore be based on recorded amounts that are subject to review in future ERRA reasonableness proceedings.

For these reasons, we find that the forecasted 2004 revenue requirements, sales and system average rates, as shown in Exhibit 8, are reasonable.

6. Carrying Costs

D.04-01-048 was issued on January 22, 2004. In resolving SCE's prior ERRA application, the decision specifically addresses the interest rates applicable to ERRA undercollections and overcollections. It is reasonable to continue those adopted procedures to this proceeding, since the issue is the same, and the decision resolving the issue is very recent. Therefore, the D.04-01-048 procedures⁹ for calculating interest on ERRA undercollections and overcollections will also be applicable for the 2004 forecast period. The procedures apply to balancing account variations only. D.04-01-048 does not

⁸ SCE's allocation of DWR contracts is anticipated to increase to 23,449 GWhs in 2004 from 18,473 GWhs in 2003. SCE URG requirements are therefore reduced to 46,650 GWhs in 2004 from 50,151 GWhs in 2003.

⁹ See Ordering Paragraph 4 of D.04-01-048.

address or modify SCE's calculation of carrying costs for fuel inventory and collateral expense. Therefore, no such changes will be reflected in this decision.

7. Confidential Information

At SCE's request, Exhibit 1 -- Energy Resources Recovery Account Forecast of Operations -- was identified and received into evidence under seal. This exhibit presents SCE's testimony on the development of its estimated ERRA proceeding revenue requirement for 2004.¹⁰ According to SCE, portions of the testimony and exhibits accompanying its application contain commercially sensitive, confidential, and proprietary information on its electric energy resources and its plans for managing its power resources to meet customer needs on a least cost basis. SCE claims that maintaining the confidentiality of this information is critical to protecting its ability to function effectively in both the electric and gas markets.

A review of Exhibit 1 indicates that the redacted portions relate to certain purchased power contract terms and costs, bases of power price forecasts, residual net position cost assumptions and other information that might put SCE at a competitive disadvantage, if revealed. Maintaining this information under seal for a period of one year is reasonable and consistent with the provisions of Public Utilities Code Section 454.5(g), which states the Commission shall adopt appropriate procedures to ensure the confidentiality of any market sensitive information submitted in an electrical corporation's proposed procurement plan.

¹⁰ SCE specifically identified the portions that were confidential. A redacted version of this testimony was also received into evidence as Exhibit 1R.

8. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge in this matter was mailed to the parties in accordance with the Pub. Util. Code § 311(d) and Rule 77.1 of the Rules of Practice and Procedure. Comments were filed by SCE on March 15, 2004. There were no reply comments.

In its comments, SCE requested that the proposed decision be modified to allow the consolidation of the rate change in this proceeding with other rate changes, as specified in the proposed decision in its test year 2003 GRC, A.02-05-004.¹¹

9. Assignment of Proceeding

Michael R. Peevey is the Assigned Commissioner and David K. Fukutome is the assigned ALJ for this proceeding.

Findings of Fact

1. SCE's forecasted 2004 ERRA revenue requirement, as reflected in Exhibit 8, is uncontested.
2. Exhibit 8 excludes the revenue requirement associated with energy efficiency programs, since such recovery is now achieved through a separate, non-bypassable surcharge.
3. Exhibit 8 updates the ERRA balances to end of year 2003 recorded amounts.

¹¹ Ordering Paragraph 2 of that proposed decision, in part, states "In order to minimize the number of rate changes, SCE is authorized to consolidate rate changes authorized herein with those authorized not later than April 30, 2004 in other proceedings and by this decision for 2004 pursuant to the Post-Test Year Ratemaking (PTYR) mechanism as approved in this Order."

4. Use of more recent information results in a market benchmark of 5.18 cents/kWh, a system average CTC rate of 0.321 cents/kWh and a DA customers' CTC contribution of \$30,451,000, all of which are reasonable and reflected in Exhibit 8.

5. The forecasted 2004 revenue requirements, the related sales and the system average rates, as shown in Exhibit 8, are reasonable.

6. In order to minimize the number of rate changes, it is reasonable to allow SCE to consolidate the rate change in this proceeding with the rate change ultimately adopted in Phase 1 of SCE's test year 2003 GRC.

7. ORA and SCE have agreed that whatever the Commission decides in A.03-04-022, on SCE's proposal for calculating interest on ERRA undercollections and the extent of revisions to carrying costs, should be carried forward into this proceeding.

8. D.04-01-048, in A.03-04-022, resolved the issue of interest on ERRA undercollections and overcollections and provides a reasonable basis for determining such interest in 2004.

9. D.04-01-048 did not revise SCE's calculation of carrying costs for fuel inventory and collateral expense.

10. At the request of SCE, Exhibit 1 was identified and received under seal.

Conclusions of Law

1. The 2004 ERRA revenue requirement forecast and associated estimates as reflected in Exhibit 8 should be adopted, and SCE should be allowed to modify its ERRA rates consistent with the information contained in Exhibit 8.

2. SCE should be allowed to consolidate the rate change in this proceeding with the rate change ultimately adopted in Phase 1 of its test year 2003 GRC.

3. Recorded URG related capital and O&M expenses that are included in the NLBA should be subject to reasonableness review in GRC proceedings.

4. The interest rate procedures adopted in D.04-01-048 for ERRRA undercollections and overcollections should continue for the 2004 forecast period.

5. SCE's calculation of the carrying costs for fuel inventory and collateral expense should not be revised for this proceeding.

6. Information placed under seal should remain sealed because, if disclosed, it would put SCE at a competitive disadvantage.

7. Today's order should be made effective immediately.

INTERIM ORDER

IT IS ORDERED that:

1. Southern California Edison Company's (SCE's) 2004 Energy Resource Recovery Account (ERRA) revenue requirement forecast and associated estimates, as reflected in Exhibit 8, are adopted.

2. SCE is authorized to file in accordance with General Order 96-A, revised tariff schedules consistent with the information contained in Exhibit 8. Such tariff schedules and associated rate changes shall be implemented and become effective pursuant to the language authorizing consolidated rate changes in the proposed decision on Base Rate Revenue Requirement and Other Phase 1 Issues in SCE's test year 2003 general rate case, Application 02-05-044. The revised tariff schedules shall apply to service rendered on and after the effective date.

3. Consistent with Decision 04-01-048, the interest rate applicable to ERRRA undercollections shall be set at the three-month commercial paper rate as reported in the Federal Reserve Statistical Release H-15 (index) plus a premium

of three-fourths the spread between the index and SCE's actual cost of short-term financing until that spread is 50 basis points or less or until SCE is able to issue commercial paper, whichever occurs first. At that time the interest rate for undercollections shall revert to the index rate. This premium on the index shall not be precedent setting. The interest rate for overcollections shall be set at the index rate.

4. All information placed under seal shall remain sealed for a period of one-year from the effective date of this decision, unless the Commission decides otherwise. If SCE believes that further protection of sealed information is needed beyond two years after the effective date of this order, it may file a motion stating the justification for further withholding of the sealed information from public inspection, or for such other relief as the Commission may provide. This motion shall be filed no later than 30 days before the expiration of this ordering paragraph.

5. This proceeding remains open to consider SCE's request for a finding that its procurement-related and other operations were reasonable for the record period September 1, 2001 through June 30, 2003.

This order is effective today.

Dated April 22, 2004, at San Francisco, California.

MICHAEL R. PEEVEY
President
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

APPENDIX A